

## **FINANCIAL STATEMENT ANALYSIS & FOOTNOTE DISCLOSURE REQUIREMENTS**

Field Office financial statement analysis, footnotes, and required supplementary stewardship information must be submitted by July 14, 2006, for 3<sup>rd</sup> quarter statements and October 16, 2006 for year-end statements to the Office of Financial Reporting and Analysis (FRAD), CF-11/GTN, to the attention of Jeffrey Carr. Please note that some of the analyses/footnotes **are not required for 3<sup>rd</sup> quarter reporting**. The requirements for 3<sup>rd</sup> quarter and/or year-end are noted for each specific analysis/footnote.

### **I. Financial Statement Analysis**

Field Offices are responsible for the analysis of their principal statements as well as certain suspense and miscellaneous account balances. The principal statements are available from the Standard Accounting and Reporting System (STARS). Refer to Attachment 3 for a listing of available reports to be used for the financial statement analysis. Requests for user IDs to access STARS reports can be obtained via the Management Information Systems Application Gateway at <http://mis.doe.gov>.

The results of each field office's analysis should summarize both field office and integrated contractor data. However, detailed documentation by reporting entity must be available to support the analysis submitted to Headquarters.

#### **A. Analysis of Suspense Accounts (required for year-end only)**

Analyze and provide an explanation for any balances in the following Standard General Ledger Accounts (SGL).

1. 199099 - Other Assets, Suspense
2. 232099 - Deferred Credits, Suspense Credits

#### **B. ES&H Analysis (required for 3<sup>rd</sup> quarter and year-end)**

Analyze and correct the Current Year Environment Safety and Health Activity. The Current year change in SGL account 2990U1, Other Liabilities, Not Covered by Budgetary Resources – ES&H Liabilities, must equal the current year costs in SGL account 6800U9, Future Funded Expenses, Unfunded Costs, program value 1721267 – YN0402 Unfunded Safety and Health Expense.

#### **C. Abnormal Account Balance Analysis (required for 3<sup>rd</sup> quarter and year-end)**

Analyze, provide an explanation and resolve any significant account balances with an abnormal balance (i.e., a debit balance in an account that should have a credit balance or vice-versa). Also, all abnormal balances for intragovernment SGL accounts will need to be corrected or explained, as appropriate, at the trading partner DFF level.

D. Tiepoint Analysis (required for 3<sup>rd</sup> quarter and year-end)

Automated tie point comparisons can be found at the bottom of the STARS financial statements. Each office should research all tie point differences identified below and make appropriate correcting entries.

1. Compare Balance Sheet Assets to Liabilities and Equity
2. Compare Balance Sheet to Statement of Changes in Net Position
3. Compare Statement of Financing to Statement of Net Costs
4. Review "Other Line to be Reconciled" on the Statement of Changes in Net Position to ensure that it equals zero.

E. Significant Changes in Financial Statement Balances (required for year-end only)

Field offices should analyze the Balance Sheet, Statement of Net Costs, Statement of Changes in Net Position, and Statement of Financing at the allottee level and provide an explanation for any significant change (greater than \$20 million) for each line between the FY 2006 balances and the related balance from the FY 2005 financial statements. Explanations are not required for the following lines: fund balance with Treasury, investments, regulatory assets, deferred revenues, environmental liabilities, pensions and other actuarial liabilities, contingencies, unexpended appropriations, cumulative results of operations, and prior period adjustments. However, it should be noted that, even though field offices are not being required to provide explanations for significant changes in the above accounts, KPMG auditors may require explanations for specific differences.

The Treasury system used by FRAD to input data for the Federal Report of the United States requires all balance changes greater than 10 percent to be explained. Additional information on significant balance changes may be requested from the field offices to meet this requirement.

Field offices should also analyze and provide applicable explanations, at the allottee level, a trial balance by SGL/Trading Partner to identify any significant account balance changes by Trading Partner.

Please ensure that all explanations are thorough and state not only what has changed but also provide adequate detail as to why the significant change occurred. Field offices are reminded that the significant account balance change analysis is an important internal control for financial reporting, and is a management responsibility that cannot be substituted by work performed by our independent auditors.

F. Analysis of Environmental Liability Data (required for 3<sup>rd</sup> quarter and year-end)

1. DOE Environmental Liabilities Summary Report - Field offices should ensure that the beginning balance (funded/unfunded) plus any prior period adjustments and current year changes equals the ending balance (funded/unfunded). Current year reclassifications of unfunded to funded must always equal zero. Any differences may be caused by missing or incorrect environmental liability type codes on the SGL 6800 accounts.
2. EM Operating Expenditures Reconciliation Report - Field offices should analyze any unreconciled difference in the Non-Legacy Waste Operating Costs column and ensure that this amount is comprised of only non-legacy waste operating costs incurred in FY 2006. Field offices should also provide an explanation of the items included in the Non-Legacy Waste Operating Costs column.
3. EM Capital Expenditures Reconciliation Report – Field offices should analyze any amounts in the Unreconciled Difference column and provide an explanation for these items. Also, any differences between the Current Year Legacy Write-Off amounts and the Reduction to Environmental Liability amounts should be explained.

The format of the required third quarter and yearend environmental liability disclosures will be separately provided to field offices by Lois Jessup in the Office of Financial Policy. Submission of these disclosures should be made directly to Ms. Jessup in accordance with due dates established by the Office of Financial Policy.

Questions regarding environmental liability data and the reconciliation issues should be addressed to Marion Hoch on (301) 903-4216. Other environmental liability related questions should be addressed to Lois Jessup on (202) 586-3959.

G. Trading Partner Analysis (required for 3<sup>rd</sup> quarter and year-end)

Field offices should review and analyze the Trading Partner Exception reports and correct material balances. Questions regarding these reports and the analysis should be directed to Scott Chayette on (301) 903-9705 or Marion Hoch on (301) 903-4216.

## H. Other Accounting Data Errors (required for 3<sup>rd</sup> quarter and year-end)

Provide an explanation for significant accounting data errors, if any, not already identified in any of the previous analysis steps.

## **II. Footnote Disclosure Requirements**

### NOTE A – Contingencies (required 3<sup>rd</sup> quarter and for year-end)

The legal representation letter process will generate the necessary information to prepare this footnote disclosure at the Headquarters level. The Office of General Counsel will request the general counsel at each field office to provide a narrative description of contingent liabilities as part of the legal representation letter process. The field offices General Counsel should coordinate with their respective field office Chief Financial Officer prior to submitting this information to the Office of General Counsel.

### NOTE B - Environmental, Safety, and Health Liability (required for 3<sup>rd</sup> quarter and year-end)

Guidance to develop the ES&H liability estimate for FY 2006 reporting in the consolidated financial statements was issued on May 16, 2006, see <http://www.mbe.doe.gov/efasc/frad/YE-FSGuidance.htm>. The estimate should include all ES&H compliance activities funded by all Cognizant Secretarial Offices, except the Office of Environmental Management (EM). The EM portion of the ES&H compliance liability will be reported as a component of the EM environmental liability. Field offices should submit narrative describing adjustments to the prior year ES&H compliance liability. Please see the Unfunded Liabilities Accounting Guide at <http://www.mbe.doe.gov/efasc/frad/otherguidance.htm> for the detailed entries required to record the ES&H liability.

### NOTE C – Intra-Governmental Transactions (required for 3<sup>rd</sup> quarter and year-end)

During the quarterly reconciliation of intragovernmental balances, the Department receives requests from other Federal agencies to confirm quarterly or year-end intra-governmental balances. Field offices may be asked to provide the necessary detailed breakout of these transactions to assist FRAD in this effort.

Additionally, any amounts reported with a Trading Partner of “00” – Unidentified should be analyzed to determine whether a more appropriate Trading Partner code can be utilized. Classified amounts should continue to be reported using Trading Partner Code 00 but all other intra-governmental balances should utilize an appropriate Trading Partner Code other than 00, if available. If assistance is needed in determining the proper Trading Partner Code to use, please call Marion Hoch on 301-903-4216.

Please use the excel template for Intra-Governmental Transactions to explain all “Unidentified” amounts.

NOTE D - Property, Plant, and Equipment (PP&E) (required for 3<sup>rd</sup> quarter and year-end)

The PP&E analysis ensures consistency with data contained in the Balance Sheet and Statement of Financing.

Each allottee is required to analyze and correct any tie point problems identified on their STARS PP&E Roll Forward Report. Field offices are also required to breakout the net amount on the PP&E Roll Forward Report by its components of PP&E and Accumulated Depreciation. Please use the excel template for PP&E to document this breakout. If any SGLs are missing from the template, or if you have additional questions, please contact Greg Dulovich on (301) 903-4701 or Marion Hoch on (301) 903-4216.

NOTE E – Inventory Roll Forward Reconciliation Schedule (required for 3<sup>rd</sup> quarter and year-end) – This reconciliation should be completed by SPRO for oil inventory and NNSA for nuclear materials inventory. Please use the excel template for Inventory to document this reconciliation. If any SGLs are missing from the template, or if you have additional questions, please contact Greg Dulovich on (301) 903-4701 or Marion Hoch on (301) 903-4216. NNSA will issue guidance to field offices that have integrated contractors with special nuclear materials. This guidance will request specific information required to assist NNSA in compiling a consolidated nuclear materials inventory roll forward schedule.

In addition to the reconciliation, SPRO must also provide the following information:

1. Historical cost of the crude oil contained in the reserve.
2. Historical cost of the oil purchased with DOD funding.
3. Specific information on any exchange agreements or oil drawdowns, including dollar values.
4. Historical cost of the Northeast Home Heating Oil Reserve.

NOTE F – Direct Loans and Loan Guarantees - This information only applies to the National Energy Technology Laboratory (NETL). Please use the excel template for Direct Loans to document your response.

NOTE G - Commitments/Leases (required for year-end only)

Commitments are long-term contractual agreements entered into by the Federal Government, such as operating leases and undelivered orders that become liabilities when required actions or conditions under the agreements have occurred. The following information is required.

1. Capital leases (Assets) - Provide the Federal and non-Federal amounts for capital leases and accumulated depreciation/amortization, by the major asset categories. Please use the excel template for Capital Leases - Assets to document your response.

Also, for capital leases greater than \$5 million, provide disclosures for the major asset categories included in the template to identify funding commitments associated with the lease terms such as: the basis for contingent rental payments, existence and terms of renewal options or purchase options, escalation clauses, contingent rentals restrictions imposed by lease agreements, and the amortization period.

2. Capital leases (Liabilities) – Please use the excel template for Capital Leases – Liabilities to document your response. Please note that the amount reported on the templates as “Net Capital Lease Liability” must tie to SGL 2940, Capital Lease Liability.
  - a. Provide the Federal and non-Federal amounts of future minimum lease payments, imputed interest, and executory costs including any profit for the current and prior years.
  - b. Provide the future lease payments, imputed interest, and executory costs by major asset category, for all noncancellable leases with terms longer than one year.
3. Operating leases – Please use the excel template for Operating leases to document your response.
  - a. Provide the Federal and non-Federal amounts of future operating lease payments for the current and prior years
  - b. Provide the future lease payments by major asset category, for all noncancellable leases with terms longer than one year.

Also, for operating leases greater than \$5 million, provide disclosures for the above major asset categories to identify funding commitments associated with the lease terms such as: the basis for contingent rental payments, existence and terms of renewal options or purchase options, escalation clauses, contingent rentals restrictions imposed by lease agreements, and the amortization period.

4. Other commitments - Provide the Federal and non-Federal amounts of other commitments not reported above. Please contact Jeffrey Carr on (301) 903-2506 or Greg Dulovich on (301) 903-4701 before reporting any other commitments to ensure that they should not be included in the categories above. Use the excel template for Other Commitments to document your response.
5. DOE as Lessor – Use the excel template for DOE Lessor to document your response.

- a. Capital leases - Provide future projected receipts by major asset category for all noncancellable leases with terms longer than one year..
  - b. Operating leases - Provide future projected receipts by major asset category for all noncancellable leases with terms longer than one year.
6. Reclassification/Correcting Entries for Capital Leases - There are certain Standard General Ledger (SGL) accounts that should be used to record capital lease accounting transactions including the following:

18100000	Assets Under Capital Lease
18190000	Accumulated Depreciation on Assets Under Capital Lease
2940F000	Capital Lease Liability, Covered by Budgetary Resources
2940U000	Capital Lease Liability, Not Covered by Budgetary Resources

In the legacy Balance Sheet Code (BSC) accounting structure, there was no specific asset type established for assets under capital lease and, therefore, no provision was made to crosswalk these assets to the SGL 181X accounts. The estimated dollar balance for assets under capital leases was historically considered to be immaterial and no efforts were made to modify the BSC structure to accommodate the SGL 181X accounts.

Field offices should begin working with their integrated contractors or non-ICs to get them to submit entries to reclassify capital lease assets to the SGL 181X accounts by the end of August 2006. For example, if equipment was obtained via a capital lease and is still recorded to SGL 1750 (Equipment) and SGL 1759 (accumulated depreciation on equipment) as of June 30, 2006, then the cost of the equipment and the accumulated depreciation on this equipment will need to be reclassified from SGL 1750 and SGL 1759 to the capital leases accounts (SGL 1810 and 1819). Field offices that have other capital lease assets for which EFASC provides the accounting support will need to work with EFASC to reclassify these balances by the end of August 2006.

NOTE H – Subsequent Events (*required for year-end only*)

Please use the following guidance to report any subsequent events that occurred after September 30, 2006 that may have a material effect, and require disclosure, on the financial statements. Provide your response, including negative confirmations, to Jeffrey Carr at [Jeffrey.Carr@hq.doe.gov](mailto:Jeffrey.Carr@hq.doe.gov) by November 2, 2006. Additional updates of subsequent events will be required on November 14 and November 28, 2006 to support the submission of the Department's reclassified financial statements to the Department of the Treasury and the issuance of the FY 2006 Federal Report of the United States.

Subsequent Events are events or transactions which occur after September 30, 2006, but before the issuance of the financial statements and auditor's report that have a material effect on the financial statements and require adjustment or disclosure in the statements.

Two types of subsequent events require consideration by management and evaluation by the independent auditor.

The first type consists of events that provide additional information about conditions that existed at September 30, 2006, and affect the estimates used in the process of preparing financial statements. Management, in its evaluation of the conditions on which the estimates were based, should use all information that becomes available prior to the issuance of the financial statements. The financial statements should be adjusted for any changes in estimates resulting from the use of such information.

Examples of events of the first type that require adjustment to the financial statements are:

- The settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the events, such as personal injury or patent infringement, that gave rise to the litigation had taken place prior to September 30, 2006.
- A loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy after September 30, 2006, would be indicative of conditions existing at the balance-sheet date, thereby calling for adjustment of the financial statements before their issuance.

The second type consists of events that provide additional information about conditions that did NOT exist at September 30, 2006, but arose after that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that disclosure of them is required to keep the financial statements from being misleading.

Examples of events of the second type that require disclosure to the financial statements (but should not result in adjustment) are:

1. Congress passes legislation in October 2006 which obligates DOE to pay claims to injured parties.
2. Settlement of litigation when the event giving rise to the claim took place after September 30, 2006.
3. Loss of plant or inventories as a result of fire or flood.
4. Losses on receivables resulting from conditions (such as a customer's major casualty) arising after September 30, 2006.



### **III. Required Supplementary Stewardship Information (year-end only)**

#### **A. Heritage Assets**

Heritage assets are property, plant and equipment (PP&E) that are unique for one or more of the following reasons:

- Historical or natural significance,
- Cultural, educational, or artistic (e.g., aesthetic) importance; or
- Significant architectural characteristics.

Heritage assets are generally expected to be preserved indefinitely.

In cases where a heritage asset serves two purposes, the heritage asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations. Heritage assets having an incidental use in government operations are not multi-use heritage assets; they are simply heritage assets. Multi-use heritage assets are accounted for as general property and should not be included in this reporting.

Provide a description of each heritage asset, its condition and how the asset relates to the Department's mission(s). Also complete the excel template for Heritage Assets.

#### **B. Stewardship Land**

Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with items of general PP&E. Examples of stewardship land include land used as forests and parks, and land used for wildlife and grazing. Land rights are interests and privileges held by the entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights, and other like interests in land.

Land is defined as the solid part of the surface of the earth. Excluded from the definition are the natural resources (that is, depletable resources, such as mineral deposits and petroleum; renewable resources, such as timber; and the outer-continental shelf resources) related to land.

Provide a description of any stewardship land, its use, condition, and include an explanation of how the land(s) relate(s) to the Department's mission(s). Also complete the excel template for Stewardship Land; reporting in terms of physical units (e.g. acres).

#### **C. Deferred Maintenance Reporting for Personal Property**

The format on the following page should be used to report deferred maintenance for personal property.

Deferred Maintenance Disclosure Information for Personal Property  
(As of September 30, 2006)

Field Office: \_\_\_\_\_ Field Site/Contractor: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Name \_\_\_\_\_ Phone Number \_\_\_\_\_

Asset Category: General PP&E Asset Class: Personal Property - Capital Equipment

Maintenance Plan: Yes \_\_\_\_\_ No \_\_\_\_\_ If no, please explain. \_\_\_\_\_

Identify Method of Measuring Deferred Maintenance: \_\_\_\_\_

Descriptions of Requirements or Standards for Acceptable Operating Condition: \_\_\_\_\_

Changes in the condition or standards from previous year: \_\_\_\_\_

Percentages of Assets below the acceptable operating condition: \_\_\_\_\_%

Deferred Maintenance Estimate<sup>1</sup>: \_\_\_\_\_

Date of Last Assessment: \_\_\_\_\_

<sup>1</sup>The estimate should include amounts to restore the asset to its operating condition, not to upgrade an asset or expand its capacity. Pursuant to the cost/benefit considerations provided by SFFAS No. 6, the Department has determined that the requirement for deferred maintenance reporting on personal property is not applicable to property items with an acquisition cost of less than \$100,000 except in situations where maintenance is needed to address worker and public health and safety concerns.

Questions or concerns with regard to Stewardship should be directed to Lois Jessup, ME-11, 202-586-3959.